

Message Text

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ACTION EUR-08

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S E C R E T LISBON 2495

LIMDIS

DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: XGDS-1
TAGS: ECON, EFIN, PO
SUBJ: MEDIUM-TERM CREDIT FOR PORTUGAL

REF: LISBON 1289

1. BANK OF PORTUGAL LIQUID RESERVES ON MARCH 28 WERE \$113.3 MILLION. THAT LEVEL REPRESENTED AN INCREASE OF \$11.6 MILLION SINCE MARCH 9. DURING THAT PERIOD, HOWEVER, BANK OF PORTUGAL DREW DOWN \$50 MILLION FROM U.S. ESF LOAN AND \$25 MILLION FROM THE \$100 BIS LOAN GUARANTEED BY EUROPEAN CENTRAL BANKS. NET LOSSES IN RESERVES FOR THE PERIOD MARCH 9-28 WERE, THEREFORE, \$63.4 MILLION. NET LOSSES FOR THE PERIOD JANUARY 1 - MARCH 28 WERE \$314.7 MILLION.

2. LINES OF CREDIT CURRENTLY OPEN TO BANK OF PORTUGAL INCLUDE:

- A. \$25 MILLION REMAINING FROM THE \$100 MILLION BIS LOAN GUARANTEED BY EUROPEAN CENTRAL BANKS;
- B. \$75 MILLION BIS LOAN FOR SIX MONTHS (PRESUMABLY THIS CREDIT IS AGAINST FUTURE GOLD SALES);
- C. \$40 MILLION LOAN FROM EUROPEAN CENTRAL BANKS (THIS LOAN HAD REPORTEDLY BEEN CONCLUDED IN FEBRUARY, BUT

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FINAL DETAILS APPARENTLY ARE STILL NOT COMPLETED); AND
D. \$25 MILLION WHICH SHOULD BE AVAILABLE FROM THE SALE OF GOLD BORROWED UNDER U.S. ESF AGREEMENT. IN ADDITION TO THE ABOVE, DILLON REED IS ARRANGING A BANK CONSORTIUM LOAN OF \$50 MILLION, NOMINALLY ASSIGNED TO FINANCING THE SINES PROJECT. BANK OF PORTUGAL GOVERNOR SILVA LOPES WILL VISIT BONN BEGINNING MARCH 29 TO DISCUSS

PORTUGAL'S RESERVE POSITION AND ITS NEED FOR CONTINUED SHORT-TERM FINANCING. HE EXPECTS THAT HIS DISCUSSIONS WILL ALSO TOUCH ON PROPOSED CONSORTIUM CREDIT.

3. BANK OF PORTUGAL HAS CONCLUDED NEGOTIATIONS FOR FIRST TRANCHE AGREEMENT WITH IMF. IT SENT ITS ACCEPTANCE BY TELEX. AS SOON AS IMF RESPONDS TO THIS TELEX, BANK OF PORTUGAL WILL SUBMIT ITS FORMAL LETTER OF INTENT. BANK OF PORTUGAL ANTICIPATES CONCLUSION OF FORMAL AGREEMENT WITHIN TWO WEEKS.

4. NO POSITIVE EFFECTS OF DEVALUATION HAVE YET BEEN FELT. PRINCIPAL PROBLEM APPEARS TO BE MARKET'S LACK OF CONFIDENCE. BANK OF PORTUGAL IS CONVINCED, FOR EXAMPLE, THAT EXPORTERS CONTINUE TO UNDERVALUE THEIR SHIPMENTS. IN ADDITION, TOTAL DOMESTIC DEMAND IS BEGINNING TO SUFFER AS WORKER REAL INCOMES DECLINE AND REAL INCOMES OF MIDDLE CLASS RISE, WITHOUT CORRESPONDING GROWTH IN INVESTMENT. BANK OF PORTUGAL PARTICULARLY CONCERNED BY GROWING SHORT-TERM FOREIGN DEBT OF COMMERCIAL BANKS. BANKING SYSTEM, FOLLOWING INSTRUCTIONS BY CENTRAL BANK TO OBTAIN FOREIGN FINANCING FOR IMPORTS, HAS CONTRACTED ALARMING LEVEL OF FOREIGN DEBTS WHILE THEIR FOREIGN EXCHANGE HOLDINGS APPARENTLY HAVE REMAINED RELATIVELY CONSTANT. CENTRAL BANK FEARS THAT THESE DEBTS WILL HAVE SERIOUS REPERCUSSIONS DURING LATTER HALF OF 1977. IN FACT, BANK OF PORTUGAL BECOMING INCREASINGLY CONCERNED THAT ITS CONTINUED LOSSES IN RESERVES, WITHOUT NEW PROSPECTS FOR OBTAINING LIQUIDITY, WILL PUT IT IN A DIFFI-
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